The Future of European Regional Policy
- A Place for Ireland and its Regions -

Up-date on the Policy Debate (No. 6)

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1. Introduction

Since the last Regional Policy Up-date (No.5, Dec 2004) negotiations on the draft Structural Funds Regulations for 2007-2013 have continued. The key issues within the draft Regulations are dependent on the outcome of the negotiations on the future EU budget, with Member States largely unwilling to agree on the detail in the Regulations until there is certainty on the level of funding that will be available.

Given this situation in the negotiations, this Regional Policy Up-date will look closely at the Financial Perspectives 2007-2013 in advance of the European Council on December 15-16, where agreement on the budget is the main item on the agenda. This Up-date will provide an overview of the European Commission's original proposals and a flavour of the negotiations and proposed compromises to-date. It will also address the latest available proposals from the UK Presidency and highlight some key issues from an Irish perspective.

A future issue of the Regional Policy Up-date will provide more detail on the Structural Funds Regulations themselves, the programming process and implications for Ireland. However, in order to put the discussion on the Financial Perspectives in context, an overview of some of the key issues in the negotiations during 2005 is provided below:

Some Key Events

January:

Jan 11th: European Parliament votes to extend the PEACE programme for two years to the end of 2006

Jan 31st: Luxembourg Presidency set out to reach an agreement on the Financial Perspectives and request priorities from the Member States in terms of the future of EU Structural Funds

February:

Feb 2nd: Commission adopts proposals for relaunching the Lisbon Strategy ('Jobs and growth: A new start for the Lisbon strategy')

March

Mar 4th: Commission conference on 'Cohesion and the Lisbon Agenda: the role of the regions'

Mar 23rd: European Council adopts the revised Lisbon Strategy for Growth and Jobs

April

April 5th: Commission adopts proposals for an economic restructuring programme for 2007-2013, including a 'Growth Adjustment Fund'

April 6th: Commission adopts proposals for two Framework Programmes, on Research and Competitiveness and Innovation, for the period 2007-2013

April 6th: European Parliament/Committee of the Regions conference adopts declaration on funding for EU cohesion policy for the period 2007-2013

April 7th: EUROSTAT publish the latest statistics on regional GDP levels

April 12th: Commission adopts integrated guidelines on employment and growth for the period 2005-2008

April 13th: Committee of the Regions adopts its Opinion on the Commission's Structural Funds proposals for 2007-2013

April 14th: Commission revises the eligibility of regions for Structural Funding

April 25th: New compromise proposal on EU Financial Perspectives, tabled by Luxembourg Presidency

May

May 17th: Commission publishes the 'State of the Regions' report (third progress report on cohesion)

May 19th: Luxembourg Presidency produces a second compromise proposal on the Financial Perspectives

May 20th: Committee of the Regions Summit of Regions and Cities in Wroclaw, Poland.

May 20th – 21st: Informal Regional Policy Council discusses first draft of the Commission's proposed strategic guidelines on priorities for the Structural Funds for 2007-2013

June:
June 3rd: Commissioner Hubner signs the operational programme extending the PEACE programme to the end of 2006
June 8th: European Parliament adopts report on financial perspectives, calling for a budget of 1.18% of GNI
June 7th: Commission publishes its State Aid Action Plan
June 14th: Luxembourg Presidency produces another proposal on the Financial Perspectives
June 17th: European Council fails to agree the Financial Perspectives for 2007-2013
June 19th: Council reaches political agreement on Rural Development Regulation, subject to confirmation of financing in the context of the Financial Perspectives

July:
July 5th Commission publishes draft Strategic Guidelines for the Structural Funds and opens consultation
July 6th: European Parliament adopts its reports on the Structural Fund Regulations
July 15th: European Commission publishes revised proposals on Regional State Aid Guidelines and opens consultation
July 18th: Commission publishes Strategic Guidelines for Rural Development
July 20th: Commission adopts 'Community Lisbon Programme' outlining measures at Community level to complement member states' national reform programmes for promoting economic growth and job creation

September:
Sept: UK Presidency proposes new compromise texts to the Structural Fund regulations
Sept: UK Presidency starts series of bi-lateral meetings with Member States on the Financial Perspectives
Sept 19th: Council formally adopts the Rural Development Regulation for 2007-2013

October:
Oct 10th–13th: Open Days – European Week of Regions and Cities Commission Hubner announces new initiatives
Oct 13th: Commission adopts proposals for two new instruments (JASPERS and JEREMIE) to facilitate more effective use of the Structural Funds in support of Lisbon objectives
Oct 20th European Commission outlines five proposals to re-launch the negotiations on the Financial Perspectives
Oct: Ireland submits its National Reform Plan to the European Commission

November:
Nov 7th: General Affairs Council discusses the Financial Perspectives

December:
Dec 5th: UK Presidency produces its proposal for the Financial Perspectives

2. The Financial Perspectives

What is the Financial Perspective?

The Financial Perspectives is a multi annual spending plan that translates into financial terms the Union's policy priorities. It lays down maximum amounts for each heading for each year, and the EU annual budget must respect those maximum amounts or ceilings.

The main purposes are:

- to ensure that the evolution of budgetary expenditure over several years is controlled;
- to aid planning of multi annual programmes and projects;
- to ensure a predictable inflow of resources for the Union's long-term priorities;
- to facilitate the annual budgetary procedure and make it easier for the European Parliament and the Council of the European Union, the two budgetary authorities, to agree on the annual budget.

It also gives greater certainty to Member States providing revenue for the EU budget and to actors affected by EU policy such as regions, civil society organisations, and farmers, planning long-term projects partly financed by the EU budget.

How are the Financial Perspectives agreed?
The Financial Perspectives approach was first introduced in 1988 as a means to end annual, and very often divisive, negotiations between governments over the amount of money to be allocated each year to EU policies. 2007-2013 will be the fourth Financial Perspective period, following on from 'Delors I' (1988-1992), 'Delors II' (1993-1999) and Agenda 2000 (2000-2006).

The Financial Perspectives are agreed on the basis of a proposal from the Commission. It requires unanimous agreement from the European Council. This agreement is the basis for negotiations between the European Parliament, the Council and the Commission, where the three institutions agree on the final figures by way of an Inter-Institutional Agreement. Once the three institutions have reached a decision on the Perspectives, negotiations on the legal base for programmes can be concluded in time for programmes to be up and running in January 2007.

What are the key sticking points for agreement on the Financial Perspectives?
This time the Perspectives have to be negotiated for an enlarged EU, currently 25 Member States and soon to be 27 Member States. A key issue in reaching an agreement is timing, the sooner there is an agreement the more time that regions and Member States have to prepare their programmes. This is especially crucial for the new States, who have less experience in this area.

Hopes of a quick agreement were dealt a blow when most of the countries that pay in more than they receive from the EU budget ('net contributors') set the tone in December 2003, announcing that they wanted a tight ceiling on EU expenditure. The Commission is proposing that the Financial Perspectives for 2007-2013 prioritise sustainable growth and competitiveness for more and better jobs and has proposed an overall increase in commitments of 31%. However, there are general differences as to how to achieve these priority objectives. Despite the efforts of the Luxembourg Presidency to seek a compromise, these difference were manifest at the European Council on June 16-17, which failed to reach agreement, mainly owing to the deep divide between France and the United Kingdom over the inter-related issues of the 'UK rebate' and the Common Agricultural Policy.

What happens if there is no agreement?
If there is no agreement by December 2006, two scenarios for adopting the budget are possible:
(1) The current Financial Perspectives agreement (2000-2006) is prolonged, where the current ceiling of the Financial Perspectives would be adjusted, resulting in a ceiling for commitments in 2007 of 1.09 %GNI.
(2) If this option is rejected by the European Parliament, the budget will be fixed annually and subject to a maximum rate of increase, resulting in a ceiling for commitments of 1.1% GNI in 2007, but with an annual ceiling over the period 2007-2013 of 1.06% GNI.

If the Budgetary Authority fails to agree using either of these options, then the Commission moves to the system known as provisional twelfths, a month by month budget, based on the previous year's budget. This would make programming virtually impossible and massively disrupt implementation.

3. Financial Perspectives 2007-2013 - Overview of the Process to date

Dec 15, 2003 Six net contributor countries (Germany, France, UK, Netherlands, Austria and Sweden) demand that expenditure be stabilised and not exceed commitment appropriations of **1%** of European Union GNI (€750 billion over seven years).

Feb 26, 2004 European Commission sets out its proposals '*Building our common future* - Policy *challenges and budgetary means of the enlarged Union 2007-2013',* proposing payments of **1.14%** of GNI (€943 billion) and commitments of **1.24%** of GNI (€1,025 billion).

July 14, 2004 European Commission issues a second general communication on the financial framework for 2007-2013, spelling out a set of detailed proposals for action. The communication was accompanied by a number of specific legislative proposals linked to the future financial framework, concerning in particular the common

	agricultural and fisheries policies, rural development, the Structural Funds, employment and social policy, education, training and transport.
Sept 29, 2005	European Commission presents a second package of legislative proposals, mainly in the external policies area and including the Neighbourhood programme.
Dec 7, 2004	The Council agrees to use the 'building block' approach and establishes minimum and maximum expenditure levels for each policy area, based on the requirements of each Member State
Jan 31, 2005	Luxembourg Presidency sets out to reach an agreement on the Financial Perspectives and requests priorities from Member States in terms of the future of EU Structural Funds.
Feb 24, 2005	The Committee of the Regions adopts its opinion on the Financial Perspectives supporting the Commission's proposals as the minimum requirement, including the allocation of 0.41% of GNI for the Structural Fund programmes.
April 25, 2005	The Luxembourg Presidency tables a. new compromise proposal on the Financial Perspectives
May 19, 2005	Luxembourg Presidency produces a second compromise proposal on the Financial Perspectives
June 8, 2005	European Parliament adopts its report on the Financial Perspectives, proposing payment appropriations of **1.07%** of GNI (€883 billion over seven years) and commitment appropriations of **1.18%** of GNI (€975 billion over seven years).
June 14, 2005	Luxembourg Presidency produces its final proposal on the Financial Perspectives in advance of the European Council, proposing payment appropriations of **1.0%** of GNI and commitment appropriations of **1.056%** of GNI (€866 billion over seven years).
June 17, 2005	European Council fails to agree on the Financial Perspectives for 2007-2013. The incoming UK Presidency is charged with using the Luxembourg proposals as the basis for trying to reach an agreement. During August and September the UK Presidency has a series of bi-lateral meetings with the Member States on the EU budget.
Oct 20, 2005	European Commission President outlines five proposals to re-launch the negotiations on the Financial Perspectives, in a letter to the UK Prime Minister in his capacity as President of the European Council.
Nov 7, 2005	A meeting of the General Affairs Council discusses the Financial Perspectives for the first time at Ministerial level, under the UK Presidency. The Presidency is criticised for not having produced any proposals with figures.
Dec 5, 2005	The UK Presidency publishes its proposals for the Financial Perspectives, proposing appropriations of **1.03%** of GNI (€847 billion over seven years). While the proposal also includes a reduction in the UK rebate, it receives a generally negative response from other Member States.

4. The Commission's Proposal

The Commission has proposed that the Union concentrate its action during the 2007-2013 period on three main priorities:

- Integrating the single market into the broader objective of sustainable development, mobilising economic, social, and environmental policies to that end. The goals under this priority, which corresponds to new headings 1 and 2, are competitiveness, cohesion and the preservation and management of natural resources.
- Giving a real meaning to the concept of European citizenship by completing the area of freedom, justice, security and access to basic public goods and services – a priority embodied in new heading 3.
- Establishing a coherent role for Europe as a global partner – inspired by its core values – in assuming its regional responsibilities, promoting sustainable development and contributing to civilian and strategic security. This corresponds to heading 4.

The financial framework 2007-2013 as proposed by the Commission is structured as follows:

Headings	Policy Areas Covered	Proposed Expenditure	
		€ '000 million	%
Heading 1 - Sustainable growth	Sub-divided into two separate components, 1a and 1b	**477.66**	**46.6**
Heading 1(a) Competitiveness for growth and employment	*Research and innovation (including FP7 and CIP), education and training, EU networks, internal market and accompanying policies.*	***132.75***	***13.0***
Heading 1(b) Cohesion for growth and employment	*Cohesion policy/Structural Funds (ERDF, ESF, Cohesion Fund)*	***344.91***	***33.6***
Heading 2 - Preservation and management of natural resources	Agriculture, fisheries, rural development and environmental measures Sub-divided into two separate components, 2a and 2b	**404.65**	**39.5**
Heading 2a – Agricultural payments	*CAP market-related and direct payments* *Amount earmarked under the sub-heading is that agreed by the Brussels European Council in October 2002*	***301.07***	***29.4***
Heading 2b – Other natural resources	*Rural development (EAFRD), structural measures related to the fisheries sector (EFF), and environmental measures, in particular Natura 2000.*	***103.58***	***10.1***
Heading 3 - Citizenship, freedom, security and justice	Justice and Home Affairs (JHA), border protection, immigration and asylum policy, public health and consumer protection, culture, youth, information and dialogue with citizens, Solidarity Fund and Rapid Reaction Fund	**18.50**	**1.8**
Heading 4 - The European Union as a global partner	All external action, including pre-accession instruments, EDF and reserves for emergency aid and loan guarantees	**95.59**	**9.3**
Heading 5 – Administration	Excludes administrative costs for the European Commission, as these (€29.08 billion) are covered under the policy measures of the other headings	**28.62**	**2.8**
TOTAL		**1025.03**	**100**

ERDF: European Regional Development Fund; ESF: European Social Fund; EAFRD: European Agricultural Fund for Rural Development; CIP: Competitiveness & Innovation Programme; FP7: Seventh Framework Research Programme; EFF: European Fisheries Fund; EDF: European Development Fund

5. The European Parliament's Response

In its response, the European Parliament largely accepted the Commission's proposals. It proposed payment appropriations of 1.07% of the EU's GNI (€883bn over seven years) and commitment appropriations of 1.18% of GNI (€975bn over seven years). The Parliament also proposed a number of reserves, to be established outside of the Financial Perspectives to cope with contingencies or situations that are difficult to anticipate and to assist the EU to make economic adjustments designed to boost competitiveness.

The Parliament made proposals for each heading, as follows:

Heading 1: **€459 billion**

1a. Competitiveness: Research funding should be '*simplified.*' An adequately-resourced programme for Competitiveness and Innovation is vital. Requests a €200 million increase for the social policy agenda (over and above what the Commission has proposed), mainly to help achieve the Lisbon objectives and stimulate employment.

1b. Cohesion: Sees Regional Policy as indispensable for stimulating economic and social cohesion. Urges that cohesion funding be '*used exclusively for that purpose*' in order to support growth, employment and sustainable development and above all to reduce disparities between EU regions. Says that financing in this area should total 0.41% of EU GNI.

Heading 2: **€396.2 billion**

Regards the sums earmarked by the Commission for the Rural Development Fund as a bare minimum. Believes the problems of rural areas can in part be addressed by providing more support to help diversify the economy. Proposes allocating €21 billion to Natura 2000.

Opposes re-nationalising the CAP but backs the phasing-in of co-financing for agricultural expenditure in the EU-15 if needs outstrip the resources available after the accession of Bulgaria and Romania (scheduled for 1 January 2007).

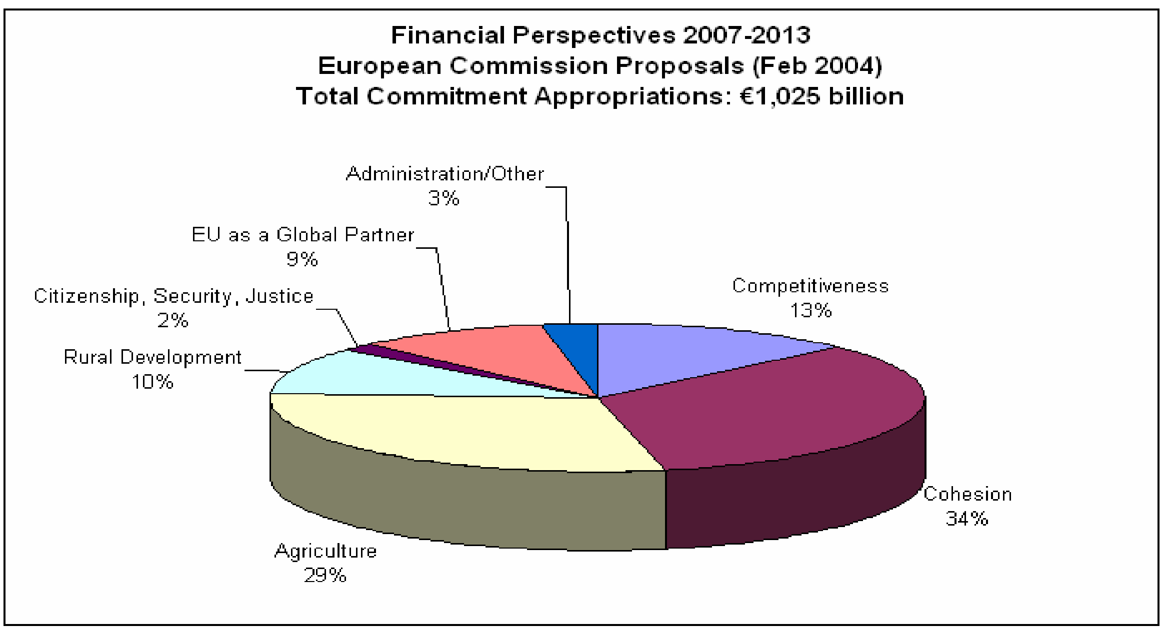
Heading 3: **€19.4 billion**

Says a €1 billion increase above what the Commission has proposed is '*necessary in order to attain its goals*', particularly in fighting organised crime and terrorism and for youth and culture programmes.

Heading 4: **€70.6 billion**

Calls for more flexibility to meet new needs and for adequate funding for key areas such as the new neighbourhood policy.

Proposes the creation of reserves for competitiveness (capped at €7 billion and replacing the Growth Adjustment Fund), cohesion (€3 billion), emergency aid (€1.5 billion) and the Solidarity Fund (€6.2 billion).



6. On-going Discussions in the Council

The discussions in the Council have been overshadowed by the announcement of six net contributor states in December 2003, saying they wished to confine the EU budget to 1% of EU GNI. However, during the Dutch Presidency, in 2004, Member States agreed to develop the EU budget by adopting the 'building block' approach, forcing countries to be clearer in their choices and developing an inventory of the positions on budgetary options for the various policy areas. This was the basis on which the Luxembourg Presidency took up the challenge of taking forward the negotiations in 2005.

6(a) The Luxembourg Presidency

The Luxembourg Presidency produced at least three separate proposals on the Financial Perspectives (from April to June) in advance of the European Council in June 16-17 as part of its efforts to reach an agreement during its term as President. Its final proposal, on which negotiations were conducted at the Council meeting, provided for each heading as follows:

Heading 1: €378.5 billion

1a. Competitiveness: Proposed committing **€72 billion** to Heading 1a covering five areas: research and development, TENs, education and training, promoting competitiveness and the social policy agenda. While the EU's research effort should continue to be based on excellence, the 7th Framework Programme should ensure balanced access for all Member States.

1b. Cohesion: Proposed **€306.5 billion** for Heading 1b. 82.3% of this funding (€252.25 billion) to be allocated to the Convergence objective and 15.26% (€46.78 billion) to the Competitiveness and Employment objective, of which 20.3% (€9.49 billion) for the 'phasing-in' regions (including the BMW region in Ireland). 2.45% of the sub-heading (or €7.5 billion) to be allocated for Territorial Co-operation.

Heading 2: €377.8 billion

Proposed some €295.10 billion for direct payments and market-related expenditure, in line with the October 2002 European Council agreement and adjusted to take account of the accession of Bulgaria and Romania. Also provided €74 billion for the Rural Development Fund and €3.9 billion for the new Fisheries instrument. No specific funding allocated for the NATURA 2000 network but Member States invited to ensure that this area is properly covered by their cohesion and rural development programmes.

Heading 3: €11 billion

Provided €6.63 billion for Security and Justice policies and €4.37 billion for other internal policies such as culture, youth, audio-visual, health and consumer protection.

Heading 4: €50.1 billion

Proposed €50.1 billion for external actions, not including the European Development Fund.

The overall proposal of the Luxembourg Presidency provided for commitment appropriations of 1.056% of EU GNI (€866 billion over seven years) or payment appropriations of 1% GNI. Despite intensive negotiations during the two-day summit, the Luxembourg proposal was rejected, with five Member States voting against (Finland, the Netherlands, Spain, Sweden and the UK) and two other countries (Denmark and Italy) abstaining. The UK, the Netherlands and Sweden took the view that the overall budget was too high and that it was not focused on policy priorities to meet the future needs of the EU, with the UK in particular demanding a review of the 2002 deal on the CAP. Sweden and the Netherlands also maintained that their contributions to the budget were too high. Spain and Finland voted against the proposal for a different reason, 'putting a marker down' that the proposal must be seen as the minimum for any future agreement.

6(b) New Ideas from the Commission

In an effort to break the deadlock and move the debate forward on the Financial Perspectives, the Commission President, Mr Jose Manual Barroso, tabled a number of initiatives, in the form of a letter to the UK Prime Minister Blair in advance of the Informal European Council in Hampton Court on October 27. In the letter Mr Barroso made five suggestions, the most relevant in this context being:

Establish a Globalisation Adjustment Fund

Intended to deal with the consequences of globalisation, this fund would help people affected by factory closures through training and assistance in finding a job. Unlike the Growth Adjustment Fund of €1 billion that the Commission originally proposed in 2004, the money for the Globalisation Adjustment Fund, about €500 million per year, would come from outside the main budget.

Earmark Structural Fund spending for Lisbon Strategy actions

In order to ensure that the Structural Funds contribute to the Lisbon Strategy, Member States should set a target of 60% of cohesion policy spending on Lisbon-type projects, to be increased to 75% for programmes within the Competitiveness and Employment strand. (The Commission estimates that 50% of Structural Funds are currently used for projects that contribute to improving competitiveness).

Increase Modulation rates for Rural Development

In order to provide more resources for rural development, proposed that there be a further 1% increase per year in the modulation rate shifting resources from direct farm payments towards rural development measures. This would result in a 10% modulation rate by 2012 and generate an additional €3.2 billion for rural development over the 2007-2013 period.

Include a Review Clause for all aspects of the EU budget for 2009

As some Member States were calling for an immediate review of the structure of the EU budget, which was not possible, suggested that a review clause could be included in the Financial Perspectives, providing for an examination of all aspects of the budget, including revenue and expenditure, in 2009. The Commission would publish a White Paper in early 2009 and any changes resulting from the review would be implemented in the post 2013 Financial Perspectives.

Establish a Technological Fund for Cohesion Countries

This proposal emerged a little later in the negotiations. The fund would be targeted at poorer Member States, helping them to invest in research, development and innovation, including related infrastructures.

6(c) The UK Presidency

On December 5th, the UK Presidency published its proposals for the future Financial Perspectives. These provide for commitment appropriations of 1.03% EU GNI (which equates to 0.98% GNI for payments), or €846.75 billion over the period 2007-2013. The proposals provide for each heading as follows:

Heading 1: €368.9 billion

1a. Competitiveness: €72 billion proposed for this sub-heading, with five broad objectives: research and development, TENs, education and training, promoting competitiveness and the social policy agenda.

1b. Cohesion: €296.9 billion proposed for this sub-heading. 81.6% of this funding (€242.2 billion)to be allocated to the Convergence objective and 15.9% (€47.2 billion) to the Competitiveness and Employment objective, of which 20.2% (€9.5 billion) would go to the ‘phasing-in’ regions (including the BMW region in Ireland). 2.5% of the heading (or €7.5 billion) would be allocated for Territorial Co-operation.

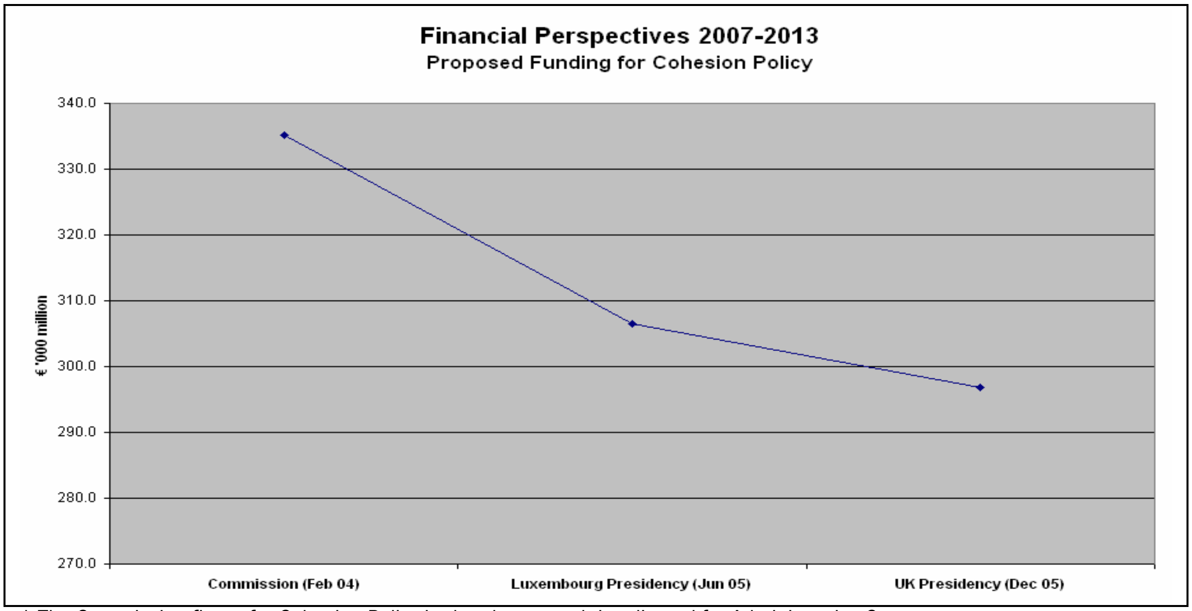
Heading 2: €367.46 billion

Some €293.105 billion would be for direct payments and market-related expenditure, in line with the October 2002 European Council agreement. €66 billion would be provided for the Rural Development

Fund (with at least €32.6 billion allocated to the new Member States (EU10) and Bulgaria and Romania). €3.8 billion would be allocated to the new Fisheries instrument. No specific funding proposed for the NATURA 2000 network.

Heading 3: **€10.27 billion**
The UK Presidency is substantially the same as the Luxembourg proposal.

Heading 4: **€50.01 billion**
Allocation for external actions was €50.01bn, excluding the European Development Fund.



* The Commission figure for Cohesion Policy in the above graph is adjusted for Administrative Costs.

7. Some Issues and Implications for Ireland

EU Regional Policy
The final Luxembourg compromise reduced the proposed level of overall EU expenditure, shifted the allocation of resources towards the Convergence objective and drastically cut funding for transnational co-operation programmes, but also improved the treatment of transitional regions and retained a sizeable budget for the Regional competitiveness and employment objective. The UK Presidency proposals represent a continuation, and in some cases, an acceleration of these trends. In general, it may be said that this evolution does not augur well for the prospects for funding of key objectives of the next round of Structural Funds of most interest to Ireland.

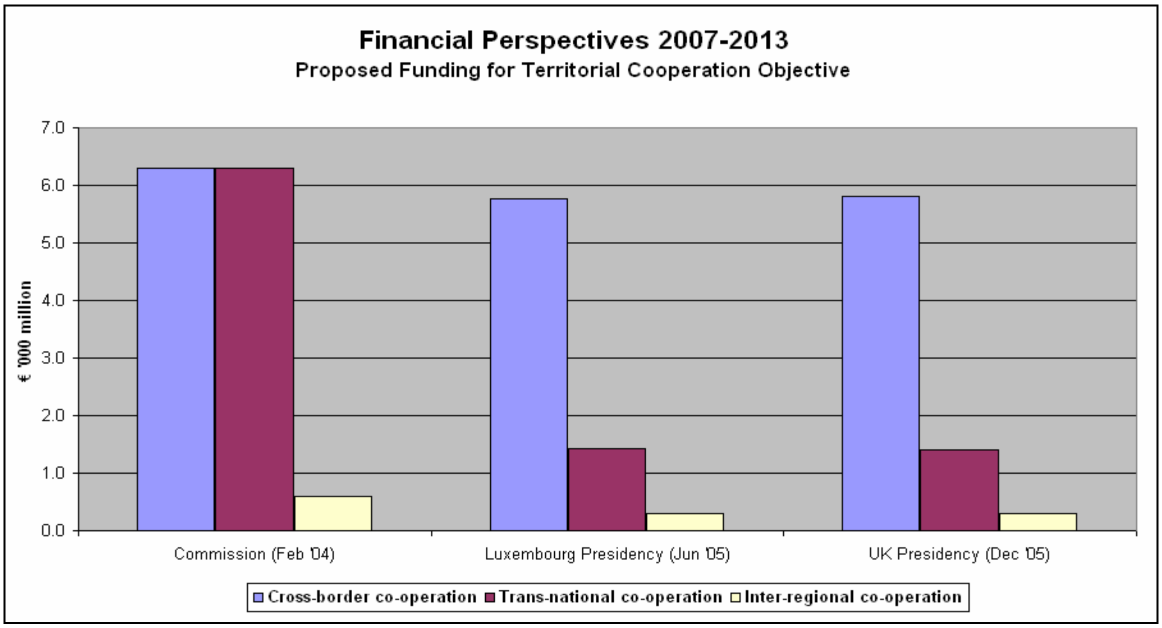
Commissioner Hubner and senior Commission officials have said that it would be difficult to implement a meaningful EU Regional Policy outside the Convergence regions if the resources for this policy were to fall below €300 billion overall, and under €40 billion for the Regional competitiveness and employment objective, including "phasing-in". The UK Presidency's proposals bring the situation below the first of these thresholds and very close to the second.

Ireland will be relying on the Regional Competitiveness and Employment strand as the source of much of its Structural Funds for the period from 2006 onwards and this element of the Commission's proposals has been subjected to significant cuts both in the Luxembourg compromise (down €11.1 billion) and in the UK proposals (down €10.7 billion). However, funding for the "Phasing-in" regions has held up, with both the Luxembourg and UK compromise proposals both retaining a figure of €9.5

billion. The implications are that the pot from which the S&E will be drawing is becoming smaller while that from which the BMW region will be drawing is increasing in relative terms. While this development might be seen as encouraging from the point of view of the BMW region (a “phasing-in” region), the more critical issue for both the BMW and S&E regions may be the allocation criteria that will determine the intensity of aid that regions will receive.

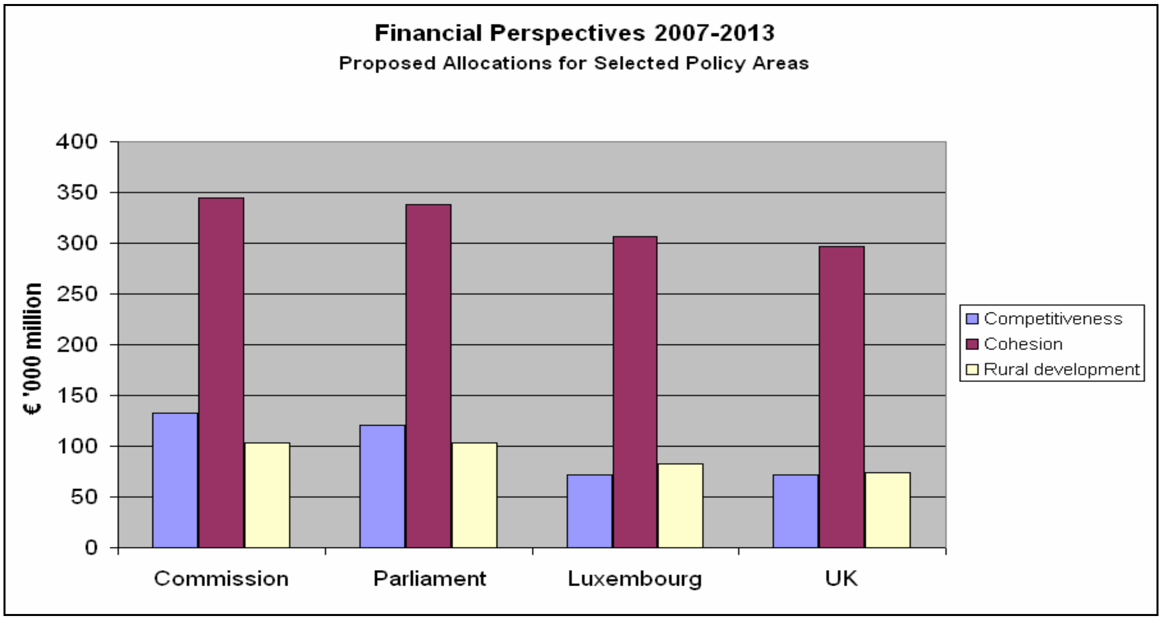
Allocation criteria are used to determine the share of funds for each Member State/region from within the various financial envelopes. The proposed allocation methods are quite complex, which makes it difficult to assess their potential impact without detailed analyses for each region. For the Regional Competitiveness and Employment objective, the criteria that were proposed by the Luxembourg Presidency, and retained by the UK Presidency, emphasise labour market issues and indicators of relative regional prosperity that may not favour Ireland’s case, or indeed that of the BMW region.

The Territorial Co-operation objective of the Commission’s proposals has seen the most severe cuts, in percentage terms, in subsequent compromise proposals from the Luxembourg and UK Presidencies. Overall funding has been cut by 43%, or €5.7 billion (from €13.2 billion to €7.5 billion). However, the cross-border strand is being favoured (the cut is 8%, from €6.3 billion to €5.8 billion) while the trans-national co-operation strand is being reduced to less than a quarter of what the Commission originally proposed. If the outcome is of the order proposed by the Luxembourg and UK Presidencies, it will mean funding lower that current levels for Interreg IIIB.



This general evolution may not augur too badly for the future of the North/South and Ireland/UK maritime programmes. However, it will have quite severe implications for funding for trans-national projects of the type that are currently funded under Interreg IIIB, and which have proved attractive to a wide range of organisations at regional and local levels in Ireland. The trend will also, almost certainly, put an end to the Commission’s, and some Member States’, ambitions for funding for more concrete as opposed to just exchange type projects within the framework of the transnational co-operation strand of the new Territorial Co-operation objective. The Commission’s proposals for the Territorial Co-operation objective provide for a Community co-finance rate of 75%, which would mean that Irish projects within Territorial Co-operation programmes would continue to enjoy the high rates of co-finance hitherto associated with Objective 1. This would make participation in such projects considerably more attractive. However, with the likelihood of considerably reduced funding levels there comes the prospect of increased competition for project promoters in bidding for funds, which may make participation less attractive to many bodies. An alternative scenario is that the Commission revises its proposals and introduces lower co-finance rates in order to make the limited funds stretch further.

The Commission's proposals did not provide for a continuation of the PEACE programme post 2006 (although the Commission was very supportive of the two-year extension of the current programme, from the end of 2004 to the end of 2006). Both the Luxembourg and UK Presidency compromises propose €200 million for the PEACE programme for 2007-2013. In the circumstances, it seems more likely than not that the programme will continue post 2006, although the levels of funding may be down on those of current and past programmes. If there is to be a PEACE programme, an appropriate amendment will be required to the draft Structural Funds regulations.



Rural Development Policy

Both the Luxembourg and UK Presidency proposals reduce significantly the volume of funding for rural development, (from €88 billion down to €66 billion), although the UK proposal offers Member States the option of making up the shortfall by increasing the rates of modulation that would direct more resources from farm payments to rural development measures (from the agreed rate of 5% up to an optional 20% under the UK proposal). The cutbacks in rural development funding seem likely to fall disproportionately on EU-15 Member States, including Ireland. The EAFRD regulation, as adopted by the Council, specifies the minimum levels of funding that Member States must allocate to the various axes, including economic diversification and Leader, and these will have to be respected whatever the outcome of negotiations on overall funding levels.

General Conclusions

It is not possible or appropriate here to review the wide range of political and diplomatic considerations that may impinge on the prospects for an early agreement on the Financial Perspectives. We confine commentary to a number of points that are specific to cohesion policy. A crucial point may concern interpretations of the Luxembourg European Council decision. Many Member States take the view that the Presidency Conclusions mandate the final Luxembourg compromise proposal as the starting point for further debate and negotiations. However, the UK, currently holding the Presidency, has consistently maintained that the Luxembourg proposals cannot be the basis of an agreement to which it would consent, and its proposals of 5th December are consistent with that. This may be a key sticking point for the 18 Member States who voted in June for the Luxembourg compromise and also for the other two Member States who rejected that compromise believing it was too low from an expenditure point of view. Many elements of the UK Presidency's proposals are aimed at facilitating easier implementation and draw down of Structural Funds in the new Member States e.g. change from a N+2 to an N+3 rule, higher rates of co-finance, and wider scope for non-public expenditure contributions to programmes. Some of these address key concerns raised by these Member States and may prove attractive, although the Commission has come out against many of these proposals citing the creating of a two-tier approach. The Commission also rejected the UK proposal to allow the new Member States to use the Structural Funds for financing housing projects, saying that this did not contribute to the Lisbon Strategy and economic competitiveness, which the UK has championed in its approach to the Financial Perspectives.

While the UK's proposals would mean an overall reduction in resources for the Convergence objective, the actual impact may be reduced when potential implementation difficulties and absorption limits are taken into consideration. In these circumstances the idea of receiving less money but with freedom to spend it over a longer timeframe and with less demand in terms of national co-financing may prove attractive. Timing may also be an important consideration. Eligibility for the key Structural Funds objectives is substantially based on GDP per capita figures calculated as an average over three years. The use of data for 2001-2003 rather than for 2000-2002 may make a critical difference to the shares of Member States' populations eligible for Convergence and phasing-out. This may be a particularly important issue for the new Member States, perhaps suggesting that they might favour an early agreement before more up-to-date Eurostat figures become available.

A key consideration for other Member States, including the UK, will be agreement on a review clause in the Financial Perspectives. The UK Presidency has proposed that there will be a reassessment of all aspects of the financial framework, both revenue and expenditure, in 2008, in order "to sustain modernisation and enhance it both within and beyond 2007-2013". This could cause a problem in the negotiations now or else Member States may wish to make an agreement and delay the need to take many of the hard decisions until 2008. Finally, the UK Presidency's proposals perhaps indicate the ultimate basis for an agreement by opening the way for a range of one-off deals designed to address key issues of concern or interest to individual Member States. While this approach may not be very coherent from a policy perspective, it perhaps represents the "real politick" that will determine a successful outcome to the negotiations on the Financial Perspectives.

Financial Perspectives 2007-2013				
Commitment appropriations	**Commission**	**Parliament**	**Presidency**	
(in million €)	proposal	proposal	Luxembourg	UK
	26.02.2004	08.06.2005	15.06.2005	05.12.2005
1. Suistainable growth	477,665	459,035	378,518	368,910
1a. Competitiveness	132,755	120,563	72,010	72,010
1b. Cohesion	344,910	338,472	306,508	296,900
2. Natural resources	404,655	396,248	377,801	367,464
2a.Agricultural payments	301,074	293,105	295,105	293,105
2b. Other natural resources	103,581	103,143	82,696	74,359
3. Citizenship, security, justice	18,505	19,437	10,055	10,270
4.EU as a global partner (7)	95,590	-	-	-
4a. Excluding EDF	-	70,697	50,010	50,010
5. Administration (8)	28,620	28,620	50,300	49,300
5a. All administrative costs	57,700	54,765		-
Compensation	0	800	0	800
Total	1,025,035	974,837	866,684	846,754
As percentage of GNI	1.24%	1.18%	1.05%	1.03%